Mandatory IFRS Adoption and Management Forecasts

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Abstract

Using a difference-in-difference research design, we find that firms in countries that mandated IFRS are significantly more likely to provide management earnings forecasts following IFRS adoption than firms in countries that do not mandatorily adopt IFRS. This increase is greater for firms in countries with larger difference between domestic GAAP and IFRS and in countries with greater IFRS implementation credibility. In addition, we find that the increase in the likelihood for firms to provide management forecasts is positively related to the development level of domestic equity markets and negatively related to the number of firms' cross-listings. Also, firms' higher tendency to issue management forecasts upon IFRS adoption appears permanent. Finally, controlling for the time effect as proxied by the contemporaneous change in informativeness of management forecasts by firms in non-IFRS adoption countries, we find that management forecasts have a significantly higher increase in price informativeness upon IFRS adoption in countries with stronger legal enforcement. Our study suggests that mandatory IFRS adoption changes firms' voluntary disclosure behavior through the change it brings on firms' capital market environments.

I. INTRODUCTION

The widespread adoption of International Financial Reporting Standards (IFRS) is one of the most important developments in recent accounting history and has spawned a growing body of research on its determinants and consequences. Proponents of IFRS argue that a single set of high quality accounting standards facilitates international comparability and will significantly improve the information environment and investment efficiency (EC 2002). Prior research provides supportive evidence on the comparability benefits of IFRS adoption. Most of this research, however, focuses on external capital market consequences, such as increased analyst following (Tan et al. 2011; Landsman et al. 2012), reduced analyst forecast error (Hodgdon et al. 2008; Horton et al. 2012), increased foreign investment (Khurana and Michas 2011; Chen et al. 2012a; DeFond et al. 2011; Florou and Pope 2012; Hong et al. 2012; Landsman et al. 2012), improved investment efficiency (Biddle et al. 2011; Chen et al. 2012b), increased liquidity and reduced cost of capital (Daske et al. 2008; Li 2010), and increased cross-country information transfers (Kim and Li 2010). There is little evidence to date showing whether IFRS changes firms' proactive decisions that would allow them to reap the potential benefits that become newly available.[1] We fill this void by directly examining the effect of mandatory IFRS adoption on firms' voluntary disclosures. More specifically, we examine whether managers are more likely to supply earnings forecasts following mandatory IFRS adoption and how the change in disclosure behavior, if any, is affected by the institutional environment of the firm.

Several reasons suggest that firms are likely to provide more voluntary disclosures in general, and management forecasts in particular, following IFRS adoption. Most important, the increase in comparability of financial reporting due to the large-scale mandatory adoption of

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[1] While there is evidence showing that IFRS adoption firms appear to have better earnings quality, it is not clear whether the better quality earnings follow mechanically from the implementation of IFRS or firms actively improve earnings quality under the new standards which are comparable on a global scale.

IFRS across the European Union and other countries in 2005 not only facilitates firms' access to foreign capital markets, but also increases the competition for capital in domestic markets (Tan et al. 2011; Bruggemann et al. 2012; DeFond et al. 2011). As a result, managers have incentives to increase voluntary disclosure and improve transparency to attract investors and reduce their cost of capital. In addition, IFRS standards are commonly deemed to be more principles-based than local GAAP in many adopting countries (Ball 2005; Atwood et al. 2011). Hence, more management judgment and discretion are involved in the reporting process under IFRS. Voluntary disclosure would then help reduce the information asymmetry between management and investors revolving the application of IFRS. Relatedly, the principles-based nature of IFRS also increases the litigation risk of adopting firms (Schipper 2003; Donelson et al. 2012). By preempting bad news through voluntary disclosure, firms can reduce the risk of lawsuits and damage claims if lawsuits do occur (Skinner 1994, 1997). Further, prior research suggests that voluntary and mandatory disclosures are likely to be complements because mandatory disclosures allow investors to better assess the credibility of voluntary disclosures, which would in turn increase the demand for voluntary disclosures (Ball 2001; Beyer et al. 2010; Ball et al. 2012). This notion indicates an increase in management forecasts because IFRS generally requires more mandatory disclosures than local GAAP (Bae et al. 2008) and increases accounting quality (Barth et al. 2008).

Using a large sample of firm-year observations and management earnings forecasts from 35 countries, 18 of which mandated IFRS, we predict and test whether mandatory IFRS adoption increases voluntary disclosures. Employing a difference-in-difference methodology to control for time series variation across adoption and non-adoption countries, we find strong evidence that firms are significantly more likely to provide management forecasts following mandatory IFRS

adoption.

To add confidence to our conjecture that the increase in management forecasts is indeed related to IFRS adoption, we identify four country- and firm-level characteristics related to firms' incentives to provide voluntary disclosures. First, we expect the increase in management forecasts to be greater when the difference between local GAAP and IFRS is larger, because greater change in the financial reporting standards implies greater improvement in financial information comparability upon IFRS adoption. Accordingly, firms in countries with greater difference in domestic GAAP from IFRS will witness higher improvement in their ability to attract foreign investments and more intensified pressure in retaining domestic investors. Second, in countries with stronger legal enforcement, the implementation of IFRS will be more credible and the improvement of the financial reporting system will be more in substance than in form (Daske et al. 2008). Investors in such environments also give greater credence to firms' disclosures. We hence predict that firms have stronger incentives to increase management forecasts in these countries. Third, upon the adoption of IFRS, countries with a more developed capital market are more likely to attract foreign investors and their domestic investors who are more financially educated and sophisticated are also more likely to invest abroad. Domestic firms of these countries will then face higher competition for capital. We hence predict that firms in these countries are more likely to increase management forecasts after IFRS adoption. Conversely, we expect the increase in the provision of management forecasts to be negatively related to the number of foreign stock exchanges on which a firm's stock is listed. This is because firms cross-listed in foreign exchanges already have greater access to foreign capital and probably also a high level of information disclosure. Hence these firms could be less sensitive to changes in the information environment caused by IFRS adoption. Our results are consistent with

each of these predictions.

The switch to IFRS only occurs at one point in time, but the comparability benefits are likely permanent. Indeed, our evidence suggests that mandatory IFRS adoption results in a permanent increase in voluntary disclosures (the increase in both forecast likelihood and forecast frequency observed in the post-IFRS adoption period does not revert to the pre-IFRS adoption level during our sample period). In addition, we also examine the impact of mandatory IFRS adoption on several important management forecast properties including forecast attribution (i.e., whether management provides explanations for its forecasts), forecast precision (i.e., how quantitatively specific the forecast is), and loss forecast issuance. While we do not find evidence suggesting that IFRS adoption affects either forecast precision or loss forecast issuance, we do find that firms are more likely to provide explanations for their earnings forecasts after IFRS adoption. Finally, we test and provide evidence that the informativeness of management forecasts provided by firms in mandatory IFRS adoption countries increase less than those in non-IFRS countries in general, but forecasts made by IFRS adoption firms in countries with stronger legal enforcement observe a significantly larger increase in informativeness upon IFRS adoption compared to forecasts by firms in weak legal enforcement countries.

Our paper makes several important contributions to the literature. Most important, we provide direct evidence of one specific channel through which IFRS enhances firms' information environment – by increasing managers' incentives to provide more voluntary disclosures. Our study complements prior research (e.g., Barth et al. 2008) documenting an improvement in earnings quality for firms adopting IFRS. We demonstrate that the effect of IFRS is not limited to the financial information that is mandatorily disclosed, but rather it has a regulation spillover effect on voluntary disclosure. As such, we also add to recent research suggesting that mandatory

and voluntary disclosures could be complements (Beyer et al. 2010; Ball et al. 2012). Our evidence confirms the notion that better quality of mandatory disclosures increases investors' demand for information, which in turn encourages managers to provide more voluntary disclosures.

In addition, we add to the literature on management forecasts. Most of the extant management forecast literature focuses on U.S. companies.[2] We extend management forecasts to the international level. Although our study focuses on the relation between management forecasts and IFRS adoption, our empirical models and findings also provide abundant evidence of the effect of a variety of financial factors on management's forecast decisions around the world.

Finally, Daske et al. (2008) and Christensen et al. (2012) show that "paper IFRS adoption", namely, adoption without credible enforcement, does not result in capital market benefits to firms. Our finding that firms in strong legal environments are more likely to increase management forecasts suggest a feedback effect of legal enforcement on firms' disclosure decisions: Because investors do not trust firms' disclosures in a weak legal environment, firms in such an environment would refrain from voluntarily disclosing information because of the lack of benefits from investors.

The remainder of this paper is organized as follows: the next section reviews the related literature and develops our hypotheses. We discuss our data and empirical methodology in Section III. Results are discussed in Section IV and Section V concludes.

II. RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT

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[2] Two exceptions are Baginski et al. (2002), who compare management forecasts between U.S. and Canadian firms, and Kato et al. (2009), who examine management forecasts in Japan.

Mandatory IFRS adoption increases managers' incentives to provide voluntary disclosures for at least three reasons. First of all, widespread adoption of IFRS increases financial information comparability as firms move from varied domestic accounting standards toward a single set of standards (Yip and Young 2012). Increased comparability attracts foreign analyst following and increases cross-border investment (Tan et al. 2011; Landsman et al. 2012; and Bruggemann et al. 2012; DeFond et al. 2011, respectively), resulting in greater competition for capital from both domestic and international firms. In other words, after IFRS adoption, firms no longer compete primarily with other domestic firms for domestic investment, but also compete with firms in other IFRS adopting countries for international capital.[3] One way firms can attract investors in the global capital market is to provide more voluntary disclosures. Increased foreign investment will also bring diverse beliefs about the firm which further increase managers' incentive to provide disclosures in order to align the market's perception with their own information (Ajinkya and Gift 1984). This argument is consistent with the empirical evidence that analyst forecast dispersion decreases after IFRS adoption (Preiato et al. 2012; Horton et al. 2012).

In addition, the principles-based nature of IFRS increases the litigation risk that the adopting firms face (Schipper 2003; Donelson et al. 2012). The discretion and judgment IFRS requires increase managers' risk of being indicted for misstatement (Donelson et al. 2012). Providing more voluntary disclosures such as management forecasts can help managers preempt such risk (Skinner 1994, 1997; Soffer et al. 2000; Brown et al. 2005).

Further, IFRS is more comprehensive than most domestic GAAP, requiring more information to be incorporated into audited financial statements (Ball 2005). Beyer et al. (2010)

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[3] In a speech, former SEC Chairman Christopher Cox stated that investors "could more easily weigh investment opportunities in their own countries against competing opportunities in other markets" (Cox 2008)

and Ball et al. (2012) argue that mandatory and voluntary disclosures are complementary since better quality mandatory disclosures increase the credibility of financial information in general, resulting in greater demand for voluntary disclosures. The increased disclosures resulting from mandatory IFRS adoption will hence increase investors' demand for voluntary disclosures.

Nonetheless, to the extent that mandatory and voluntary disclosures are substitutes in the sense that more mandatory disclosures make voluntary disclosures less useful to investors, IFRS adoption will lead to fewer management forecasts. Our prediction will then be weakened, ultimately leaving the relationship between IFRS adoption and management forecasts an empirical issue.

Based on the above reasoning, our first hypothesis is formally stated as follows:

H1: Ceteris paribus, firms are more likely to provide earnings forecasts after mandatory IFRS adoption than before.

Management's incentives to increase earnings forecasts following IFRS adoption are not likely to be uniform across firms but rather depend on the marginal benefits affected by IFRS. Two factors affect the benefits of IFRS to the adopting firms: the increase in comparability between domestic accounting standards and the standards used by international investors, and the credibility of this increase in comparability. One of the main purposes for firms and countries to adopt IFRS is to attract foreign investment. When domestic accounting standards differ more from the standards used by international investors, a country's capital market will be more segregated from the international capital market because foreign investors are less prone to invest in companies whose financial statements they do not understand or trust. IFRS adoption, especially when undertaken by a large number of countries, will increase comparability and open the country's capital markets to more potential foreign investors and attract greater foreign

investments. Consistent with this argument, prior research finds that larger differences in domestic GAAP and IFRS are associated with greater capital market benefits (Ashbaugh and Pincus 2001; Bae et al. 2008; Daske et al. 2008; Li 2010; DeFond et al. 2011; Horton et al. 2012; Hong et al. 2012). Notably, a dominant proportion of foreign investment comes from the U.S. and the U.K. (Ferreira and Matos 2008) which have accounting standards similar to IFRS at a high level (Bae et al. 2008).[4] As such, we conjecture that when a country's domestic accounting standards differ more from IFRS, upon the adoption of IFRS, its firms will have greater incentives to provide voluntary disclosures, management earnings forecasts in particular, to cater to the information needs of the new potential investors. We formally state this prediction in the following hypothesis:

> **H2a: The increase in management earnings forecasts following IFRS adoption is higher for firms in countries with larger difference between domestic GAAP and IFRS.**

The difference between domestic GAAP and IFRS only measures the comparability effect of IFRS adoption in form. However, whether a country's newly adopted IFRS standards represent increased comparability with those used by international investors, especially investors of the U.S. and the U.K. and other developed countries with strong legal institutions, in substance, depends on the country's strength of legal enforcement. Adopting IFRS without proper enforcement would be equivalent to no adoption, if not worse. Supporting this notion, recent research indicates that most of the liquidity benefits from IFRS adoption depend on the level of enforcement of IFRS as much as (or rather than) differences in accounting standards themselves (Christensen et al. 2007, 2008, 2012; Daske et al. 2008, 2012). Only with strong enforcement will IFRS adoption credibly increase comparability and result in benefits associated with the improvement in standards comparability. Accordingly, we predict that firms from

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[4] According to Ferreira and Matos (2008), institutional investors from the U.S. and the UK account for nearly 60% of all foreign institutional investment in 2005.

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countries with strong enforcement environments will have higher incentives to increase voluntary disclosures following IFRS adoption. We formally state this prediction in the following hypothesis:

> **H2b: The increase in management earnings forecasts following IFRS adoption is higher for firms in countries with stronger legal enforcement.**

Additionally, a country's level of capital market development will also affect the benefits of IFRS adoption to its firms. If a country has a more developed domestic capital market, upon IFRS adoption, its firms will have greater potential to attract foreign investments. Meanwhile, its relatively more sophisticated domestic investors are also more likely to invest in other countries that have adopted IFRS. Hence, firms in countries with a more developed capital market not only have greater incentives to attract foreign investments, but also face more pressure to retain domestic investors. These firms are likely to compete to supply more voluntary disclosures to better cater to the information needs of both foreign and domestic investors. We therefore have the following hypothesis:

> **H2c: The increase in management earnings forecasts following IFRS adoption is higher for firms in countries with more developed equity markets.**

Finally and directly related to the comparability benefits of IFRS adoption, firms cross-listed on foreign stock exchanges already have access to foreign investors and are also likely to have a relatively high disclosure level. As a result, IFRS will have a relatively smaller impact on these firms' incentives to further enhance voluntary disclosures in order to attract foreign investors. We would then expect to observe a smaller increase in management earnings forecasts for these firms upon IFRS adoption. We state this prediction in the following hypothesis:

> **H2d: The increase in management earnings forecasts following IFRS adoption is lower for firms cross-listed in more foreign markets.**

III. DATA AND METHODOLOGY

Data and Sample Selection

Our management earnings forecast data are from Standard & Poor's Capital IQ. Capital IQ aggregates management forecasts from newspapers, filings, subscriptions, and other similar sources for firms in about 100 countries and regions. Capital IQ provides the text of earnings forecasts issued by management within the Key Developments data set under "Corporate Guidance." As in DeFond and Hung (2004), we start by restricting our sample to countries with 100 or more observations during the final year of our sample period (2009) to ensure that each country has an adequate level of firm coverage. This procedure results in an initial sample of 42 countries. We further remove countries for which we do not have all country-level institutional variables used in empirical tests of Hypothesis H2a-H2c (a total of five countries removed for this constraint). In addition, we also exclude Japan which effectively mandates management forecasts (Kato et al., 2009), and Singapore where local standards are substantially similar to IFRS before 2005 (PWC, 2008). These data requirements result in a sample of 35 countries, 18 of which mandatorily adopted IFRS in 2005 (i.e., IFRS-adoption countries), constituting our treatment countries. The other 17 countries had not adopted IFRS by the end of our sample period of 2009 (i.e., non-IFRS adoption countries) and serve as our control group. We further remove all observations associated with firms that voluntarily adopt IFRS in the control countries by looking at the actual accounting standard used by each firm in each year. We obtain all firm- and industry-level control variables from Capital IQ except analyst following which is obtained from IBES. Our final sample consists of 164,779 firm-year observations from 2004 to 2009.[5] Among these observations, managers issue at least one forecast during the year in 28,422

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[5] Capital IQ indicates that its coverage of management forecasts is not systematic and hence incomplete for years before 2004.

firm-years and issue a total of 68,519 forecasts during our sample period.

Empirical Methodology

We test Hypothesis H1 by estimating the following logistic regression model:

$$FOCR_{it} = \alpha_0 + \alpha_1 \times IFRS_{j(i)} + \alpha_2 \times POST_t + \alpha_3 \times IFRS_{j(i)} * POST_t + controls + \varepsilon_{it}, \qquad (1)$$

in which, the dependent variable, $FOCR_{it}$, is an indicator variable that takes the value of 1 when firm i makes at least one earnings forecast in year t, and 0 otherwise. $IFRS_{j(i)}$ is an indicator variable that takes the value of 1 if country j that firm i belongs to mandates IFRS in 2005 and 0 otherwise. Its coefficient α_1 captures the difference in the tendency of management to issue earnings forecasts between firms in IFRS adoption countries and those in non-adoption countries in the pre-IFRS adoption period, namely, years 2004 and 2005. $POST_t$ is an indicator variable equal to 1 if year t is 2006 or after (i.e., 2006-2009) and 0 otherwise. We consider 2006 as the first year with IFRS potentially affecting management forecasts because firms could still be in the process of adapting to the compulsory reporting practice in year 2005 with firms beginning fiscal years after January 1st not reporting annual IFRS financial statements until in calendar year 2006. More importantly, the various capital market effects impacting firms' reporting incentives, as discussed in Hypotheses H2a-H2d, are likely to materialize only after a period of reporting by a massive number of firms. For robustness, we exclude year 2005 from the analysis and our main results remain statistically similar. The coefficient on $POST$, namely α_2, gauges the change in firms' inclination to provide management earnings forecasts surrounding year 2006 in non-IFRS adoption countries. Hence, the coefficient on the interaction term $IFRS*POST$ measures the change in management's tendency to supply earnings forecasts in IFRS adoption countries from pre-2006 to post-2006, relative to the change in management's tendency to forecast in non-IFRS

adoption countries over the two periods. This coefficient, α_3, is our measure of the effect of IFRS adoption on the likelihood of firms' providing management forecasts, using the change of forecasting behavior of firms in non-IFRS adoption countries around 2006 as the benchmark to control for any potentially confounding time effect. A positive coefficient of α_3 will be consistent with Hypothesis H1.

We control for various firm- and industry-level variables identified in prior research as determinants of voluntary disclosure behavior (refer to the Appendix for detailed definitions). We include scaled accruals (*ACCRUAL*) to control for potential earnings management (Dechow et al. 1995) and firms' opacity in mandatory financial reporting (Bhattacharya et al. 2003). Firms could have incentives to supply more voluntary disclosures when their mandatory reporting is more opaque. Analyst following (*ANALYST*) and the proportion of institutional ownership (*INSTITUTION*) control for investors' demand for transparency (Lang and Lundholm 1993, 1996). The indicator *BIG4*, measuring whether a firm is audited by a Big 4 auditor, controls for auditor quality (Lang and Lundholm 1993). Firms with a better quality auditor are likely to have higher quality financial information and hence would be more forthright in disclosure. The book-to-market ratio (*BM*) serves as a control for the firm's growth opportunity set. Firms in the growth stage have more uncertainty and tend to be more financially opaque. We include earnings volatility (*EARNVOL*) and the number of business segments reported by firms (*SEGMENT*) to control for information uncertainty. Investors facing greater information uncertainty would demand more supplementary information such as management's forecasts of future earnings.

The proportion of equity owned by insiders (*INSIDER*) controls for the effect of agency problems on firms' information disclosure policy. A high level of inside ownership would weaken a firm's incentive to voluntarily disclose information to the common investors. The

natural log of total assets (*LNASSET*) controls for firm size which is likely to influence corporate transparency (Kasznik and Lev 1995). The indicator assessing whether a firm reports a loss, *LOSS*, controls for the difference in value-relevance and persistence of negative earnings (Hayn 1995). The indicator variable *NEWS*, measuring whether the current period EPS is greater than or equal to the prior period EPS, controls for managers' incentive to disclose bad news to preempt litigation risk (Skinner 1994). The issuance of option grants during a particular year (*OPTGRANT*) controls for management's incentive to accelerate bad news disclosures when granting options (Aboody et al. 2004). The number of stock exchanges on which a firm is listed (*STKEXCH*) each year controls for the amount of information that the firm is required to provide for cross-listings on various foreign stock exchanges.

Our industry-level controls include the industry-median dependence on external finance (*EXTFIN*) because firms that depend more on external capital are more likely to issue forecasts (Frankel et al. 1995). We include industry concentration, measured using the Herfindahl Index multiplied by (-1) (*HERF*), industry-median research and development intensity (*RD*), and whether the firm is in the high tech industry (*HITECH*) to control for firms' business environments. Firms facing greater business competition and firms in high tech industries with large R&D expenditures are likely to also face greater competition for capital and hence have greater incentives to improve transparency to reduce capital costs. Further, in all regressions, we include industry fixed effects.

For country-level factors, we include in all regressions country fixed effects. In an alternative specification, we also include four additional country-level factors that could affect management forecast likelihood in different countries. In particular, we include *GAAPDIFF*, which refers to the number of accounting differences between IFRS and local GAAP for each

country prior to IFRS adoption (from Bae et al. 2008). *ENFORCE* is a country-year measure of legal enforcement from Kaufmann et al. (2009). *CAPMKT* measures the relative size of the equity market over a country's GDP for each country-year as a proxy for the level of development of each country's equity market in each year. In addition, we also include *COMMON*, an indicator variable that takes a value of 1 if the country's legal origin is based on the common law system and 0 otherwise. In tests of Hypothesis H2a-H2d, in order to simplify empirical model specifications and avoid three-way interactions for easier interpretation, we focus on firms from IFRS adoption countries and test for cross-sectional variation in forecast likelihood based on differences in disclosure incentives across countries and firms. More specifically, we estimate the following regression model:

$$FOCR_{it} = \beta_0 + \beta_1 \times POST_t + \beta_2 \times POST_t \times GAAPDIFF_{j(i)} + \beta_3 \times POST_t \times ENFORCE_{j(i)t}$$

$$+ \beta_4 \times POST_t \times CAPMKT_{j(i)t} + \beta_5 \times POST_t \times STKEXCH_{it} + controls + \varepsilon_{it}, \qquad (2)$$

in which, all variables are discussed above and defined in the Appendix. Our Hypotheses H2a-H2c predict positive coefficients of β_2 to β_4, respectively, while Hypothesis H2d predicts a negative coefficient of β_5.

IV. Empirical Results

Descriptive Statistics

Table 1 Panels A and B present summary statistics for management forecast likelihood, forecast properties, and institutional characteristics by country. Panel A reports these statistics for IFRS adoption countries and Panel B reports the statistics for non-IFRS countries. Overall, in our sample period, firms in IFRS adoption countries are more likely than firms from non-IFRS countries to provide management forecasts, as indicated by the country average of *FOCR* 21.58%

vs. 15.50%. Excluding the U.S. from the non-IFRS sample would only make the contrast more significant (8.05% for non-IFRS adoption countries). On the other hand, firms in non-IFRS countries appear to make more frequent forecasts (*FFREQ*: IFRS 1.90 vs. non-IFRS 2.68). However, this inconsistent pattern compared to forecast likelihood is driven by the observations from the U.S. whose firms have an average forecast frequency of 3.12, while firms from all other countries in the non-IFRS adoption group have an average forecast frequency of only 1.76. Firms in non-IFRS adoption countries also appear to make more quantitatively specific forecasts than firms in IFRS-adoption countries (*FPREC*: 2.00 vs. 2.45). This comparison result reverses, however, if we exclude U.S. firms, with *FPREC* averaging only 1.86 in non-IFRS adoption countries. On average, firms in IFRS adoption countries are less likely to provide explanations for management forecasts than firms in non-IFRS countries (*FATTR*: 17.08% vs. 23.17%), but firms from IFRS adoption countries are slightly more likely to make forecasts on future losses than firms from non-IFRS countries (*FLOSS*: 8.34% vs. 7.68%). The absolute value of the two-day, i.e., [0, +1], price reaction to the management forecasts is also somewhat similar between the two groups of firms (*FCAR*: 5.53 vs. 5.96). At the country level, compared to non-IFRS countries, the GAAP of IFRS adoption countries have a larger difference from IFRS, justifying their need to adopt IFRS (*GAAPDIFF*: 9.44 vs. 6.76, two-tailed p-value of t-test for difference: 0.11). In addition, the size of the equity markets in the two groups of countries is comparable (*CAPMKT*: 109.88 vs. 90.48, p-value of difference: 0.41). Finally, IFRS adoption countries have significantly stronger legal enforcement than non-IFRS countries (*ENFORCE*: 1.31 vs. 0.40, p-value of difference: <0.01).

Univariate Results

Table 2 tabulates management forecast likelihood (the number of firm-year observations for which *FOCR* = 1 divided by the number of observations of each country-year) by country and year during our sample period, separated by whether the country mandated IFRS adoption in 2005. Panel A includes only countries that mandated IFRS in 2005 while Panel B includes non-IFRS adoption countries. Panel A exhibits a substantial increase in the proportion of firms providing management forecasts from year 2005 to 2006, from 17.61% to 21.15%, among IFRS adoption countries. In contrast, Panel B shows that among non-IFRS adoption countries, the proportion of forecasting firms remains essentially unchanged (from 13.62% to 14.11%) in these two years. Figure 1 graphically demonstrates the time-series trend of the proportion of forecasting firms by comparing IFRS adoption and non-adoption countries. Overall, the slope is much steeper for the IFRS adoption countries than for non-IFRS adoption countries after year 2005. The rightmost three columns of both panels divide our sample period into pre- and post-IFRS adoption periods at year 2006 and compare the proportion of firms supplying management forecasts. Figure 2 graphically summarizes the comparison of the change in percentage of firms issuing forecasts from the pre- to post-IFRS adoption periods. In IFRS adoption countries, the average proportion of forecasting firms is 17.24% in the pre-IFRS adoption period covering years 2004 and 2005. This number increases to 23.54% in the post-IFRS adoption period covering years 2006 through 2009, amounting to a 36.5% relative increase. Among non-IFRS adoption countries, however, the change in the percentage of forecasting firms over the two sub-periods is a drastically smaller 1.11%. The significant contrast here provides preliminary but intuitive evidence to support our hypothesis H1.

A closer look at the country-level statistics in Table 2 suggests that average-based evidence is not induced by a few outlier countries. In particular, while 13 out of 18 (72%)

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countries among the IFRS adoption subsample experience a statistically significant increase in the percentage of forecasting firms from the pre- to post-IFRS period, only 8 out of 17 (47%) non-IFRS countries observe a significant increase in that period.

Table 3 reports descriptive statistics for more detailed characteristics of management earnings forecasts, separately for IFRS adoption (Panel A) and non-IFRS adoption countries (Panel B). A comparison of the two panels suggests that while the forecast frequency (*FFREQ*) increases from the pre- to post-IFRS adoption periods for IFRS adoption countries (from 1.81 to 1.93), it decreases for non-IFRS adoption countries (from 2.72 to 2.67, and from 1.78 to 1.76 after excluding the U.S. firms). In addition, while forecast precision (*FPREC*) remains essentially unchanged for IFRS adoption countries, it observes a significant decrease in non-IFRS adoption countries (though also insignificant with the U.S. excluded). Forecasting firms from IFRS adoption countries observe a significant increase in the provision of explanations (*FATTR*) for their forecasts, from 8.08% to 20.07% of forecasts or a relative 148% of increase. Forecasting firms from non-IFRS adoption countries also witness an average increase in forecast explanations, but the increase is significantly smaller, from 16.20% to 25.95%, or a relative 60% (101% excluding the U.S. firms) increase. The proportion of forecasts containing warnings on future losses (*FLOSS*) exhibits similar patterns of comparison between IFRS and non-IFRS adoption countries. For IFRS adoption countries, the percentage of loss forecasts increases from the pre- to post-IFRS adoption periods from 5.60% to 9.18%, a relative 64% increase. However, *FLOSS* barely changes over the two periods for non-IFRS adoption countries (from 7.14% to 7.89%, and from 3.88% to 3.72% with the U.S. excluded). Finally, IFRS adoption countries observe a significantly greater improvement in stock price informativeness of forecasts (*FCAR*) over the two-day periods than non-IFRS adoption countries. Specifically, for IFRS adoption

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countries, *FCAR* increases from 4.3% to 6.11% in the two-day window surrounding management forecasts, amounting to a 42% relative increase. However, for non-IFRS adoption countries, the increase from 5.31% to 6.38% is only 20% relatively (29% after excluding the U.S.).

Regression Results

Table 4 Panel A reports regression results for the test of Hypothesis H1, the relation between mandatory IFRS adoption and firms' likelihood of providing management forecasts. In model I, we use the full sample including all observations from all countries meeting our data requirements. Because observations from the U.S. constitute a disproportionate fraction of the control sample, we exclude them from the analysis in model II to avoid their potential undue influence on the regression. In an alternative specification we estimate a weighted logistic regression using the number of observations from each country as the weight and obtain results (untabulated) similar to those reported. In model III, we further include several country-level variables that are later considered in tests for Hypotheses H2a-H2c and the indicator variable for legal origin (*COMMON*). Column I shows a significantly negative coefficient -0.353 ($p<0.01$) on *IFRS*, suggesting that in the pre-2006 period, firms in countries that later (in our sample period) mandatorily adopted IFRS are less likely to provide management forecasts than firms from countries that did not adopt IFRS in our sample period. However, this contrast appears to be driven by the presence of U.S. firms because in column II, after we exclude U.S. firms, *IFRS* turns significantly positive (coef.=0.394, $p<0.01$). The significantly negative coefficient -0.380 ($p<0.01$) on *POST* indicates that in non-IFRS adoption countries, firms become significantly less likely to provide management forecasts after 2006. Again, after we exclude U.S. firms, this coefficient, while retaining a negative sign, has a p-value of only 0.15.

Our main variable of interest, the interaction term *IFRS*POST*, has a significantly positive coefficient 0.606 (p<0.01) in column I. Hence, according to our discussion above on the meaning of this coefficient, compared to firms in non-IFRS adoption countries, firms in IFRS adoption countries become significantly more likely to provide management forecasts after the mandatory IFRS adoption in 2005, supporting Hypothesis H1. In terms of economic magnitude, this coefficient translates into an 83.3% increase of odds ratio of forecasting. This main result remains unchanged when we exclude the U.S. from the analysis (column II) or include additional country-level variables (column III).

Most of the control variables have the expected loading. For example, a higher analyst following (*ANALYST*) and a larger institutional holding (*INSTITUTION*) are associated with a higher likelihood of forecasting. Larger firms (*LNASSET*), firms audited by a Big 4 auditor (*BIG4*), and firms with greater growth opportunities (lower *BM*) are also more likely to issue forecasts. Moreover, as predicted, the likelihood of forecasting is positively associated with firms' option granting activities (*OPTGRANT*), number of business segments (*SEGMENT*), number of stock listings (*STKEXCH*), dependence on external financing (*EXTFIN*), membership in a high tech industry (*HITECH*), and R&D expenditure (*RD*). It is worth noting, though, that three variables flip signs when the U.S. is excluded from the regression. For example, earnings volatility (*EARNVOL*) changes from significantly positive to significantly negative from models I to II. Greater uncertainty in earnings would induce investors to demand more management disclosures on the one hand. However, on the other hand, management is likely less willing to provide forecasts because of the greater difficulty in forecasting and larger potential litigation and regulatory risk. Hence, the flip of sign could reflect that in the U.S., the supply side effect dominates the demand side effect, but in many other countries it is the opposite case. Similar

reasons could explain the change of *ACCRUAL* from significantly positive to insignificance.

While in the U.S., investors would demand and be satisfied with more voluntary management

disclosures when mandatory financial information is more opaque, in many other countries,

higher accrual levels could be the result of management's manipulation of earnings and hence

effort to garble information. Such management would obviously refrain from making more

voluntary disclosures, an effect offsetting investors' demand for more information. In addition,

greater industry competition (larger *HERF*) in the U.S. could also suggest more competition for

capital, and hence more forecast disclosures to attain lower capital cost. However, outside the

U.S., and in emerging markets in particular, where property rights protection is often weak,

greater industry competition would actually trigger information protection and hence fewer

management forecasts, potentially explaining the change in sign for *HERF*.

Table 4 Panel B reports results for the tests of Hypotheses H2a-H2d which are restricted

to firms from mandatory IFRS adoption countries. Column I shows that *POST* has a significantly

positive coefficient 0.341 (p<0.01), confirming the descriptive statistics above showing an

increase in management's tendency to issue management forecasts from before to after the

adoption of IFRS. Column II presents evidence for the test of Hypothesis H2a. The significantly

positive coefficient on the interaction term *POST*GAAPDIFF* 0.016 (p=0.01) suggests that firms

in countries with greater difference of domestic GAAP from IFRS have a greater increase in the

likelihood of providing management forecasts upon IFRS adoption, supporting the hypothesis.

Column III shows that the interaction term *POST*ENFORCE* has a significantly positive

coefficient 0.410 (p<0.01). Hence stronger legal enforcement is associated with a greater

increase in firms' forecasting likelihood, supporting Hypothesis H2b. In column IV,

*POST*CAPMKT* has a significantly positive coefficient 0.002 (p<0.01), indicating that firms

have a greater increase in their incentive to provide management forecasts when domestic equity markets are more developed, supporting Hypothesis H2c. Finally, the significantly negative coefficient -0.175 (p<0.01) on *POST*STKEXCH* supports Hypothesis H2d. If firms are already cross-listed in multiple (foreign) stock exchanges, they will have a relatively low incentive to increase management forecasts after IFRS adoption. The results based on separate inclusion of the interaction effects remain similar when we simultaneously include all of them in one regression in column VI.

To sum up, the empirical evidence in Table 4 supports Hypotheses H1 and H2a-H2d. That is, IFRS adoption is associated with an increase in the likelihood that firms provide management earnings forecasts and such increase varies systematically with firms' incentives to reduce information asymmetry and enhance transparency so as to reap capital market benefits.

Additional Analysis

In this section, we provide additional analyses related to the more detailed characteristics of management forecasts such as forecast frequency, perpetuality of the increase in forecast occurrence, forecast precision, the incidence of forecast attributions (i.e., explanations) and loss forecasts. In addition, we also conduct analysis on forecast informativeness which would complement our understanding of the relation between mandatory IFRS adoption and management forecasts.

IFRS Adoption and Forecast Frequency

Prior research suggests that forecast frequency is an important characteristic of management earnings forecasts, because it is related to "both the content and the timeliness of

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the information revealed" (Botosan and Harris 2000, 330). In our main tests above, we examine the effect of IFRS adoption on the likelihood of firms' providing forecasts. In particular, we conjecture that firms that did not issue management forecasts before IFRS adoption would be more likely to start forecasting after the adoption. However, it is also possible that firms would increase their forecast frequency so as to better enhance information transparency and lower information asymmetry. To test this prediction, we restrict our sample to firms issuing management forecasts in our sample period and examine the change in forecast frequency following mandatory IFRS adoption. We run OLS regressions by including the same set of control variables as those in Table 4 Panel A, and replacing the dependent variable with forecast frequency *FFREQ*, namely, the total number of forecasts issued by a firm during each year.

Table 5 Panel A column I presents the empirical results. Similar to the interpretation of Table 4 Panel A, the significantly negative coefficient -1.201 (p<0.01) on *IFRS* suggests that in the pre-2006 period, firms in IFRS adoption countries, on average, have lower forecast frequency than firms in non-IFRS adoption countries. In addition, the significantly negative coefficient -0.259 (p<0.01) on *POST* indicates that firms in non-IFRS adoption countries actually have a smaller forecast frequency in the period after 2006 than before. The coefficient on the interaction term *IFRS*POST*, our main variable of interest, 0.405 (p<0.01), reflects the incremental increase in forecast frequency of firms in IFRS adoption countries relative to the change in forecast frequency of firms in non-IFRS adoption countries. The interaction effect remains significantly positive in columns II and III when we exclude the U.S. firms and add the country-level variables, respectively.

In Table 5 Panel B we further test whether the increase in forecast frequency of firms in IFRS adoption countries is associated with institutional factors using OLS regressions. Column I

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examines the change in forecast frequency from before to after IFRS adoption. Columns II to V separately examine whether the change in forecast frequency is cross-sectionally affected by each of the three country-level institutional characteristics and firms' cross-listings. Column VI considers all four factors in the same model. The findings here are similar to those for forecast likelihood in Table 4 Panel B. Namely, GAAP difference, stringency of legal enforcement, and development level of domestic equity markets all have an incremental positive effect on firms' increase of forecast frequency upon IFRS adoption. The only exception is that cross-listing (*STKEXCH*) is no longer significant.

Perpetuality of the Improvement in Forecast Likelihood and Frequency

While we find that firms in IFRS adoption countries significantly increase forecast likelihood and forecast frequency following IFRS adoption, it would be interesting to understand whether this increase is a temporary phenomenon or a permanent improvement in transparency. IFRS adoption creates two types of incentives for managers to increase voluntary disclosures. On the one hand, the application of IFRS is likely to produce a short-term confusion among investors given the significant change in financial reporting standards. Firms could also be underprepared to adapt their information infrastructures to fit the new reporting system, making the financial information output less accurate. Under such an environment, firms may temporarily increase disclosures to counteract uncertainties brought about by the change in financial reporting requirements. However, the disclosure incentive generated by this shock to the financial reporting system should diminish over time as both firms and investors better understand and apply the new reporting standards. On the other hand, if the disclosure incentives change because IFRS alters firms' information and competition environment, as we elaborate

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above in discussion of Hypotheses H2a-H2d, the increase in management forecasts would more likely to be permanent. To examine these possibilities, we estimate the following logistic regression equation while restricting the analysis to firms in IFRS adoption countries:

$$FOCR_{it} = \gamma_0 + \gamma_1 \times D2005_t + \gamma_2 \times D2006_t + \gamma_3 \times D2007_t + \gamma_4 \times D2008_t + \gamma_5 \times D2009_t + controls + \varepsilon_{it}, \quad (3)$$

in which, $D2005_t$ equals 1 if the year is 2005 and 0 otherwise. Other year indicators are defined in a similar way. The control variables are the same as those considered in regression equation (1). If the increase in management forecast likelihood is a temporary phenomenon, the coefficient on earlier years after IFRS adoption such as 2006 and 2007 would be more likely to be significantly positive compared to later years such as 2008 and 2009.

Table 6 columns I and II present the estimation results. Contrary to the prediction under the temporary phenomenon explanation, all four year indicators *D2006-D2009* are significantly positive, with *D2008* and *D2009* significantly larger than *D2005* and *D2006* (tests of difference not tabulated). As such, while we cannot rule out the possibility that the temporary shock of IFRS adoption may also play a role in motivating managers to issue more forecasts, the evidence does lend support to the perpetual effect brought on by the change in firms' information and capital market environment. We obtain similar conclusions when examining the yearly change in forecast frequencies in columns III and IV.

The Effect of IFRS Adoption on Other Forecast Characteristics

To provide more in-depth understanding of the impact of IFRS adoption on firms' change in management forecast behaviors, we examine whether managers are more likely to provide explanations for their forecasts (*FATTR*), issue forecasts that are more quantitatively specific (*FPREC*), and make forecasts on future losses (*FLOSS*) following IFRS adoption. Prior studies

on management forecasts document that these are important forecast properties and can have significant impact on stock prices (e.g. Pownall et al. 1993; Baginski, Conrad, and Hassell 1993; Baginski, Hassell, and Kimbrough 2004; Kothari et al. 2009). Management's explanations on its earnings forecasts help investors to better understand the background information and contexts of the forecasts, which in turn can better reduce information asymmetry (Baginski et al. 2004). Ceteris paribus, quantitative, as compared to qualitative, forecasts can convey more certain and specific information to investors (Baginski et al. 1993). Similarly, given that firms have a general tendency to hide bad news (Kothari et al. 2009), forecasting on future losses represents a practice of actively enhancing transparency with investors. Evidence showing an increase in forecast explanations, quantitative specificity, or loss forecasts would be consistent with managers' elevated efforts to improve transparency after IFRS adoption. For empirical tests, we estimate logistic regressions similar to regression equation (1) by replacing the dependent variable with indicator variables *FATTR* and *FLOSS*, denoting whether the firm provides explanations for at least one forecast made in the year and whether at least one forecast made in the year is about future losses, respectively. For quantitative specificity, we run OLS using *FPREC*, which takes the value of 1, 2, 3, and 4 for qualitative, min or max, closed range, and point forecasts, respectively, as the dependent variable. For control variables, other than those considered in equation (1), we also include forecast frequency (*FFREQ*), which is closely related to forecast horizons, because managers would be less able to accurately forecast and hence explain earnings that are relatively distant in the future (Baginski et al. 2004). Following a similar logic, managers would be less willing/able to forecast a future loss when that forecast has a longer horizon and hence is more uncertain.

Table 7 presents the empirical results. Columns I and II show that, compared to the

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change in the explanation-providing behavior of firms in non-IFRS adoption countries around 2006, firms in IFRS adoption countries indeed are more likely to provide explanations for their earnings forecasts after IFRS adoption. Column III shows that firms are also more likely to provide quantitatively specific forecasts upon IFRS adoption. However, this result is not robust to controlling for the country-level variables in column IV. Finally, as shown in columns V and VI, we do not find any evidence indicating a significant change in the likelihood of firms' providing loss forecasts around IFRS adoption.[6]

IFRS Adoption and Informativeness of Management Forecasts

Upon the adoption of IFRS, if management provides more earnings forecasts for the purpose of enhancing investors' information, as we document above, it is possible then that investors would accordingly perceive these forecasts as more informative. Nonetheless, at least two reasons are likely to render this prediction ineffective. First, as we show in Table 5, managers increase forecast frequency after IFRS adoption. More frequent forecasts are likely to dilute the information content of each individual forecast. Second, investors' perception of the usefulness of the management forecasts, and hence the informativeness of forecasts, could be affected by institutional factors. For example, in countries characterized by lax legal enforcement and weak investor protection, investors would choose to lend little credibility to management's voluntary disclosures and deem them opportunistic, no matter before or after IFRS adoption.

For empirical tests, we measure forecast informativeness (*FCAR*) as the absolute value of the two-day (i.e., trading-day window [0, +1]) cumulative abnormal return around each earnings forecast and estimate the following OLS regression model:

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[6] In untabulated tests, we also condition the loss forecast analysis on a subsample with the target earning to be an actual loss and still find insignificant results.

$$FCAR_{itk} = \theta_0 + \theta_1 \times IFRS_{j(i)} + \theta_2 \times POST_t + \theta_3 \times IFRS_{j(i)} * POST_t + controls + \varepsilon_{it}, \qquad (4)$$

in which, $FCAR_{itk}$ is the absolute value of the two-day cumulative abnormal return for management forecast k issued by firm i in year t. As such, unlike other tests discussed above that are conducted on the firm-year level, this analysis is conducted on the forecast level. Other variables are defined as before. As prior studies suggest that forecast properties can affect the informativeness of forecasts, we include forecast frequency (*FFREQ*) as a control variable. In addition, we include a measure of the quantitative specificity of the forecast (*FPREC*) and expect that more quantitatively specific forecasts to be perceived more informative (Baginski et al. 1993). We also control for whether the forecast contains an explanation (*FATTR*) which would help investors to better understand the contexts of the forecast. We expect the presence of forecast explanations to be associated with greater absolute price reaction to the forecast (Baginski et al. 2004). Further, we include an indicator for whether the forecast predicts future losses (*FLOSS*) because loss predictions made by management could generally be more credible than profit forecasts and hence would be more informative (Kothari et al. 2009).[7]

In addition to the forecast characteristics, we also include various firm- and country-level factors that could affect forecast informativeness, including variables assessing the firm's characteristics (book-to-market ratio (*BM*), firm size (*LNASSET*), and profitability (*LOSS* and *NEWS*)) and information environment (analyst following (*ANALYST*), auditor quality (*BIG4*)), and country-level institutional characteristics (GAPP difference (*GAAPDIFF*), legal enforcement (*ENFORCE*), equity market development (*CAPMKT*), and origin of law (*COMMON*)). We also include industry- and country-level fixed effect in all models.

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[7] *FPREC*, *FATTR*, and *FLOSS* are hand-coded from the full-text management forecasts provided by Capital IQ. Because the measurement of these forecast characteristics requires judgment, for accuracy, two teams of research assistants were employed to code each variable. Where the research assistants disagreed on a particular item, we checked the item again to determine the appropriate coding.

Table 8 Panel A reports the empirical results. The significantly negative coefficient on

IFRS suggests that in the pre-2006 period, the price informativeness of management forecasts of

firms in countries that later adopted IFRS is lower by -0.862% (p<0.01) than the forecast

informativeness of firms in non-IFRS adoption countries. Similarly, the significantly positive

coefficient on *POST* indicates that firms in non-IFRS adoption countries observe an increase in

forecast informativeness by 1.19% (p<0.01) around year 2006. The coefficient on the interaction

term *IFRS*POST* reveals that firms in IFRS adoption countries also observe an increase in

forecast informativeness after IFRS adoption, but the increase is smaller than that of firms in

non-IFRS countries by 0.364%. Noting that a significant portion of the management forecasts are

issued together with earnings announcements, we exclude these "bundled" forecasts and re-

estimate regression equation (4).[8] Results in column II show that the increase in forecast

informativeness around 2006 is now similar between firms in IFRS adoption and non-adoption

countries (coef. = -0.294, p=0.27).

Overall, the evidence in Table 8 Panel A suggests that management forecasts issued after

IFRS adoption are not perceived by investors to be more informative than those issued before.

However, it is possible that this lack of an average improvement in informativeness is due to the

low credibility of forecasts resulting from weak legal enforcement in some countries. To

examine this possibility, we specifically examine the effect of legal enforcement on forecast

informativeness by focusing on firms in the IFRS adoption countries and estimating the

following regression:

$$FCAR_{itk} = \kappa_0 + \kappa_1 \times POST_t + \kappa_2 \times POST_t \times ENFORCE_{j(i)t} + \kappa_3 \times ENFORCE_{j(i)t} + controls + \varepsilon_{it}, \quad (5)$$

in which *ENFORCE* is a proxy of legal enforcement for country *j* that firm *i* belongs to in year *t*

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[8] Rogers and Van Buskirk (2012) suggest that it is important to account for contemporaneous earnings news while studying the information content of bundled forecasts.

measured by the rule of law index from Kaufmann et al. (2009). All other variables are defined as above.

Table 8 Panel B columns I and III show that, while there is a general increase in price informativeness for forecasts issued by firms in IFRS adoption countries after 2006 compared to forecasts issued before 2006 (*POST*: coef.=0.531, p=0.07), the increase is larger if the firm is from a country with stronger legal enforcement (*POST*ENFORCE*: ceof. =0.126, p=0.10). These results are consistent across all forecasts (column I) or when bundled forecasts are excluded (column III). To reduce the noise in the measurement of legal enforcement, we follow Landsman et al. (2012) and code an indicator variable *HI_ENFORCE* for whether the forecast is issued by a firm located in a country with above the sample median level of enforcement. The results reported in columns II and IV (*POST*HI_ENFORCE*: coef. =0.338, p=0.02) are similar to those in columns I and III.

To sum up, the analysis in this subsection suggests that a relatively significant increase in price informativeness of management forecasts is more likely to be observed in countries with a stronger legal environment following IFRS adoption.

Robustness Checks

Other than those discussed above, we conduct a number of additional robustness checks to ensure that our results are not sensitive to our variable definition or research design choice.

First, for each of the three country-level variables examined in Hypotheses H2a-H2c, we use an alternative measure. Specifically, we use the alternative measure of GAAP difference (*GAAPDIFF1*) defined in the appendix of Bae et al. (2008) to replace *GAAPDIFF* used in our primary analysis and obtain similar results. In addition, we measure the level of legal

enforcement using the country-level rule of law index from La Porta et al. (2006) (i.e., *ENFORCE1*) and find our main results unchanged. We also follow Christensen et al. (2012) and define an indicator variable for whether a country initiated proactive reviews of financial reports concurrently with IFRS adoption.[9] We use this indicator variable as an alternative measure of legal enforcement, which would be more specifically related to IFRS adoption, and find our conclusions unchanged. Also, we measure the importance of equity market by dividing the total value of stock shares traded as a percentage of GDP (i.e., *CAPMKT1*) for each country-year, and find our conclusions unchanged.

Second, in all of our reported analyses, we include industry and country fixed effects. In alternative specifications, we cluster by firm, by industry (hence no industry fixed effects), or by year to estimate standard errors and find our main results unchanged.

Finally, following Table 4 Panel A, we partition the full sample into two groups, IFRS adoption and non-adoption countries, and separately run a logistic regression for each subsample after including the indicator variable *POST* and all the control variables. Untabulated results show that *POST* has a coefficient -0.462 (p<0.01) for the non-IFRS adoption countries which indicates a significant decrease in the forecast likelihood in the post-2006 period compared to the pre-2006 period for countries without IFRS mandate. In contrast *POST* has a coefficient 0.330 (p<0.01) for the IFRS adoption countries confirming that IFRS adoption is associated with an increase in forecast likelihood among IFRS adoption countries. Similarly, for Table 5 Panel A, we also partition the management forecasts sample into IFRS and non-IFRS adoption groups, and separately regress forecast frequency on the indicator variable *POST* and the control variables. Untabulated results again show that *POST* has a significantly negative coefficient -

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[9] Five IFRS mandating countries, including Finland, Germany, Netherlands, Norway, and United Kingdom, adopted the review procedure.

0.278 (p<0.01) for the non-IFRS adoption countries, but a significantly positive coefficient 0.205 (p<0.01) for the IFRS adoption countries.

V. SUMMARY AND CONCLUSION

One of the primary motivations behind IFRS adoption by the European Union and other countries is to improve the information environment and hence investment efficiency. We provide direct evidence on whether and how IFRS adoption affects firms' voluntary disclosures.

Using a difference-in-difference research design, we find that firms in countries that mandated IFRS are significantly more likely to provide management earnings forecasts following IFRS adoption than firms in countries that do not mandatorily adopt IFRS. This increase is greater for firms in countries with larger difference between domestic GAAP and IFRS and in countries with greater implementation credibility. In addition, we find that the increase in the likelihood for firms to provide management forecasts is positively related to the development level of domestic equity markets and negatively related to the number of firms' cross-listings. Also, firms' higher tendency to issue management forecasts upon IFRS adoption appears permanent. Moreover, we find that firms are more likely to provide additional explanations for their earnings forecasts after IFRS adoption. Finally, controlling for the time effect as proxied by the contemporaneous change in the informativeness of management forecasts by firms in non-IFRS adoption countries, we find that management forecasts have a significantly higher increase in price informativeness upon IFRS adoption in countries with stronger legal enforcement.

Taken together, our results suggest that a change in mandatory disclosure systems could impact firms' voluntary disclosure practices. More specifically, our results show that IFRS

adoption alters firms' voluntary disclosure incentives through several alternative channels including information comparability, disclosure credibility, and capital market competition. Our study complements prior research documenting that IFRS improves the quality of firms' mandatorily disclosed information such as earnings by extending it to voluntary disclosures. Future research can examine the capital market consequences of the management forecasts issued after IFRS conditional on different institutional factors.

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Appendix: Variable Definition

Management forecast variables	
Variable	*Definition*
FOCR	An indicator variable that equals 1 if a firm issues a forecast in a given year and 0 otherwise.
FFREQ	The total number of management forecasts (i.e. forecast frequency) issued by a firm in a given year.
FATTR	An indicator variable that equals 1 if a management forecast is accompanied by an explanation and 0 otherwise. When measured at the firm-year level, it is an indicator variable that equals 1 if any of the management forecasts made in the given year is accompanied by an explanation and 0 otherwise.
FLOSS	An indicator variable that equals 1 if a forecast predicts negative earnings or a "loss" in the current period and 0 otherwise. When measured at the firm-year level, it is an indicator variable that equals 1 if a firm issues at least one loss forecast in the given year and 0 otherwise.
FCAR (%)	The absolute value of the two-day cumulative market-adjusted abnormal return in the trading-day window [0, +1] with day 0 as the management forecast date.
FPREC	A precision score with 1, 2, 3, and 4 assigned to a qualitative, min or max, closed range, and point forecast, respectively. For a firm-year with multiple forecasts, *FPREC* is the mean forecast precision score for a firm in the given year.
IFRS variables	
IFRS	An indicator variable that equals 1 if a country mandated IFRS in 2005 and 0 otherwise.
POST	An indicator variable that equals 1 for the years following mandatory IFRS adoption (2006-2009) and 0 if it relates to a pre-IFRS-adoption year (2004-2005).
Firm-level variables	
ACCRUAL	A measure of firm-level financial transparency measured by country-, industry- and year-adjusted total scaled accruals based on Bhattacharya et al. (2003). Scaled accruals are computed using balance sheet and income statement information: $ACCRUAL = (\Delta CA - \Delta CL - \Delta CASH + \Delta STD - DEP + \Delta TP)/\text{lag}(TA)$, where ΔCA is the change in total current assets; ΔCL is the change in total current liabilities; $\Delta CASH$ is the change in cash; ΔSTD is the change in the current portion of long-term debt included in total current liabilities; DEP is depreciation and amortization expense; ΔTP is the change in income taxes payable; and $\text{lag}(TA)$ is total assets at the end of the previous year.
ANALYST	The total number of analysts following a firm, obtained from IBES.
BIG4	An indicator variable that equals 1 if the auditor of a firm is a Big 4 Auditor and 0 otherwise.
BM	The ratio of book value of equity to market value of equity at the beginning of the fiscal year.
EARNVOL	The standard deviation of annual EPS over the whole sample period divided by the average total asset for the sample period.
INSIDER	The percentage of the firm's common stock held by insiders.
INSTITUTION	The percentage of the company's common stock held by institutional investors.
LNASSET	The natural logarithm of total assets in millions of US dollars.
LOSS	An indicator variable that equals 1 if a firm reports a loss in the current period and 0 otherwise.
NEWS	An indicator variable that equals 1 if the current-period EPS is greater than or equal to the EPS in the previous period and zero otherwise.

OPTGRANT	An indicator variable that equals 1 if a firm grants stock options to its directors in a given year and zero otherwise.
SEGMENT	The total number of business segments reported by a firm.
STKEXCH	The total number of actively traded stock exchanges on which a firm is listed.

Industry-level variables

EXTFIN	A measure of the dependence on external finance for firms in each two-digits SIC industry, which is the industry-level median of the ratio of capital expenditures minus cash flow from operations over capital expenditures for each country. Following Rajan and Zingales (1998), the numerator and denominator are summed over all years for each firm before dividing.
HERF	Herfindahl index × (-1), where the Herfindahl index is calculated as the sum of the squares of fractional market shares of firms within each two-digit SIC industry for each country year.
HITECH	An indicator variable that equals 1 if a firm is in a high-tech industry (SIC 2833-2836, 8731-8734, 7371-7379, 3570-3577, and 3600-3674) and zero otherwise.
RD	Firm's R&D intensity, a measure of dependence on research and development, calculated as the industry-level median of the ratio of R&D expense to total sales. The numerator and denominator are summed over all years for each firm before dividing. We compute this measure for each two-digits SIC industry using U.S. data for the period of 2004-2009.

Country-level variables

GAAPDIFF	The total number of differences between each home country's GAAP and IAS, obtained from Bae et al. (2008), Table 1 Panel B.
GAAPDIFF1	An alternative measure of GAAP difference provided and as described in the Appendix of Bae et al. (2008).
ENFORCE	A country-year measure of legal enforcement measured by the rule of law index obtained from Kaufmann et al. (2009). This index is available for 04-08. As a result, we use the mean of 04-08 to measure the rule of law of 2009.
ENFORCE1	A country level measure of legal enforcement measured by rule of law index which measures the extent to which agents have confidence in and abide by the rules of society in year 2000. These include perceptions of the incidence of both violent and non-violent crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts. Source: La Porta et al. (2006).
HI_ENFORCE	An indicator variable that equals 1 if a firm is located in a country with an enforcement level above the sample median and 0 otherwise.
CAPMKT	Total stock market capitalization of listed companies as a percentage of GDP for each country-year, obtained from the World Bank.
CAPMKT1	Total value of equity shares traded as a percentage of GDP for each country-year, obtained from the World Bank.
COMMON	An indicator variable that equals 1 if a country's legal origin is based on the common law system and 0 otherwise.

Figure 1 Yearly Average Percentage of Firms Issuing Management Forecasts: IFRS Adoption Countries vs. Non-IFRS Countries
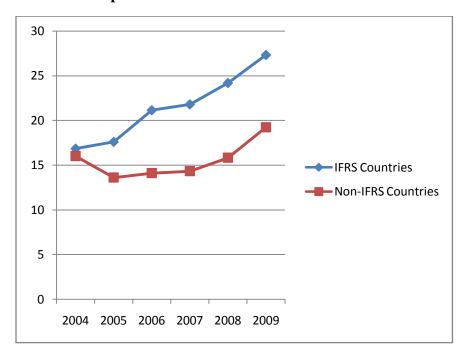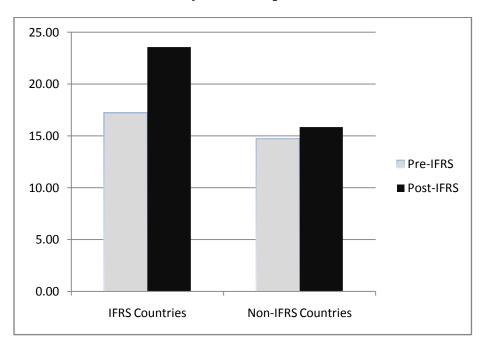
Figure 2 Percentage of Firms Issuing Management Forecasts during the Pre- and Post-Mandatory IFRS Adoption Periods

Table 1 Descriptive Statistics

FOCR (%) is the percentage of observations with management forecasts; *FFREQ* is forecast frequency; *FPREC* is forecast precision; *FATTR* (%) is the percentage of management forecasts with attribution (i.e. explanations); *FLOSS* (%) is the percentage of loss forecasts. Refer to the Appendix for more detailed variable definition.

Panel A Forecasts and institutional characteristics, mandatory IFRS adoption countries

	Country	*FOCR (%)*	*FFREQ*	*FPREC*	*FATTR (%)*	*FLOSS (%)*	*FCAR*	*GAAP-DIFF*	*CAPMKT*	*EN-FORCE*
1	Australia	22.00	1.90	2.18	17.59	6.91	6.41	4	130.68	1.74
2	Belgium	24.83	1.90	2.12	12.43	3.03	5.75	13	70.74	1.42
3	Denmark	54.15	2.68	2.63	23.31	7.19	4.98	11	67.22	1.97
4	Finland	65.59	2.31	1.85	31.61	2.94	4.95	15	96.26	1.92
5	France	24.67	2.01	1.94	12.13	4.42	3.86	12	97.49	1.48
6	Germany	36.37	2.42	2.08	19.04	6.06	3.72	11	46.02	1.70
7	Greece	12.24	1.35	1.73	10.29	2.86	3.57	17	53.49	0.75
8	Hong Kong	9.27	1.30	1.46	34.53	30.16	6.24	3	387.38	1.03
9	Italy	27.49	1.73	1.99	11.16	6.67	2.58	12	39.02	0.47
10	Netherlands	39.12	2.13	2.12	18.54	6.45	4.56	4	95.00	1.76
11	Norway	9.69	1.41	2.02	18.92	0.00	7.30	7	63.64	1.97
12	Philippines	15.42	1.69	1.63	10.36	2.65	2.38	10	71.40	0.14
13	Poland	15.08	1.74	1.59	14.24	1.09	4.13	12	33.31	0.38
14	South Africa	17.56	1.29	2.41	10.27	3.87	3.61	0	198.96	0.48
15	Spain	23.27	1.58	1.90	7.34	0.00	2.55	16	92.50	1.11
16	Sweden	9.84	1.68	1.74	11.54	0.00	4.99	10	108.03	1.88
17	Switzerland	31.98	1.89	2.09	13.38	5.71	4.93	12	205.42	1.84
18	United Kingdom	18.71	1.49	1.88	12.47	4.98	6.82	1	121.34	1.57
	Overall	*21.58*	*1.90*	*2.00*	*17.08*	*8.34*	*5.53*	*9.44*	*109.88*	*1.31*

Panel B Forecasts and institutional characteristics, non-IFRS adoption countries

	Country	*FOCR (%)*	*FFREQ*	*FPREC*	*FATTR (%)*	*FLOSS (%)*	*FCAR*	*GAAP-DIFF*	*CAPMKT*	*EN-FORCE*
1	Brazil	5.57	1.24	1.63	14.15	4.35	3.46	11	63.01	-0.38
2	Canada	5.59	2.03	2.20	21.02	4.29	8.49	5	121.48	1.68
3	Chile	2.23	1.30	1.52	17.39	0.00	2.22	13	115.68	1.21
4	China	11.14	1.94	1.96	27.76	5.42	5.34	9	214.18	0.57
5	India	4.23	1.39	2.20	5.39	2.18	3.36	8	88.16	0.34
6	Indonesia	17.99	1.56	1.40	9.32	0.36	3.15	3	64.31	0.10
7	Israel	13.83	2.08	2.42	22.00	4.26	6.07	6	97.48	0.80
8	Malaysia	9.96	1.22	1.70	19.24	1.19	2.56	7	147.87	0.72
9	Mexico	9.27	1.77	2.04	24.19	0.00	4.07	1	30.93	-0.51
10	New Zealand	35.39	1.79	2.17	15.72	0.00	3.33	3	90.13	1.74
11	Pakistan	1.66	1.08	1.52	12.00	0.00	2.51	4	31.86	-0.90
12	Peru	2.33	1.08	1.69	15.39	0.00	0.12	1	56.08	-0.71
13	Russia	31.99	1.97	1.66	10.36	1.69	3.67	16	72.33	-0.90
14	South Korea	3.25	1.61	1.28	11.58	3.64	2.87	6	80.75	0.80
15	Thailand	26.84	1.85	1.57	31.09	4.44	2.19	4	63.45	0.01
16	Turkey	3.68	1.32	1.53	0.00	0.00	1.50	14	72.62	0.75
17	United States	28.00	3.12	2.72	24.60	9.15	7.75	4	127.91	1.56
	Overall	*15.50*	*2.68*	*2.45*	*23.17*	*7.68*	*5.96*	*6.76*	*90.48*	*0.40*

Table 2 Sample Composition and Management Forecast Likelihood by Country and Year

N (Obs) is the total number of firm-year observations (years 2004 – 2009); N (%) is the total number (percentage) of observations with management forecast. % Pre-IFRS and % Post-IFRS reports the percentage of observations with management forecast for pre-IFRS (years 2004 – 2005) and post-IFRS (years 2006 – 2009) periods, respectively. *Diff* (Post – Pre) is the difference between post-IFRS and pre-IFRS periods. ***, **, and * indicate that the difference is statistically significant at the 1%, 5%, and 10% level, respectively.

Panel A Mandatory IFRS Adoption Countries

Country	2004		2005		2006		2007		2008		2009		N (Obs)	N	% all years	% Pre-IFRS	% Post-IFRS	Diff (Post - Pre)
	N	%	N	%	N	%	N	%	N	%	N	%						
1 Australia	185	16.71	250	20.33	267	19.39	295	19.27	399	25.13	389	30.37	8,114	1,785	22.00	18.61	23.37	4.75***
2 Belgium	16	13.45	21	16.54	38	30.16	41	32.03	39	30.47	30	25.64	745	185	24.83	15.04	29.66	14.62***
3 Denmark	52	35.62	60	38.46	87	54.72	100	60.98	103	66.03	87	71.31	903	489	54.15	37.09	62.73	25.64***
4 Finland	65	58.56	55	48.67	65	56.52	73	63.48	92	79.31	96	87.27	680	446	65.59	53.57	71.49	17.92***
5 France	98	15.91	118	18.44	169	25.84	203	30.66	187	28.33	173	28.31	3,843	948	24.67	17.20	28.30	11.10***
6 Germany	211	28.71	206	26.86	316	40.15	322	41.44	310	41.22	263	39.97	4,476	1,628	36.37	27.76	40.72	12.96***
7 Greece	10	6.49	24	13.79	28	15.30	27	14.14	36	17.48	11	5.42	1,111	136	12.24	10.37	13.03	2.66
8 Hong Kong	36	3.45	25	2.33	28	2.51	44	3.84	176	15.33	305	27.90	6,620	614	9.27	2.88	12.29	9.41***
9 Italy	51	20.82	69	26.54	71	27.00	76	28.36	90	33.71	73	27.97	1,564	430	27.49	23.76	29.27	5.51**
10 Netherlands	43	35.54	49	37.98	54	41.86	51	38.06	59	44.70	46	36.22	772	302	39.12	36.80	40.23	3.43
11 Norway	13	8.33	11	6.18	17	8.37	14	6.48	27	12.56	29	16.29	1,146	111	9.69	7.19	10.71	3.53**
12 Philippines	34	16.67	42	20.29	33	15.42	25	11.68	33	15.14	26	13.33	1,252	193	15.42	18.49	13.91	-4.58**
13 Poland	26	9.81	24	7.97	80	23.95	84	22.95	69	17.56	19	5.54	2,002	302	15.08	8.83	17.55	8.71***
14 South Africa	39	16.18	72	27.38	63	22.58	45	15.25	30	9.90	43	15.25	1,663	292	17.56	22.02	15.62	-6.41***
15 Spain	41	27.33	36	23.53	34	21.25	33	20.63	43	26.88	31	20.13	937	218	23.27	25.41	22.24	-3.17
16 Sweden	31	9.45	29	7.65	37	9.02	38	8.66	53	11.83	46	12.30	2,378	234	9.84	8.49	10.41	1.93*
17 Switzerland	63	27.75	60	24.49	101	40.08	96	37.94	71	27.84	80	33.20	1,473	471	31.98	26.06	34.77	8.71***
18 United Kingdom	184	16.14	199	15.67	227	16.81	273	19.78	246	17.76	315	26.38	7,719	1,444	18.71	15.89	19.98	4.09***
Total/*Overall*	1,198	*16.85*	1,350	*17.61*	1,715	*21.15*	1,840	*21.80*	2,063	*24.19*	2,062	*27.33*	47,398	10,228	*21.58*	*17.24*	*23.54*	*6.30****

Table 2 Cont'd

Panel B Non-IFRS Adoption Countries

	Country	2004		2005		2006		2007		2008		2009		N (Obs)	N	% all years	% Pre-IFRS	% Post-IFRS	*Diff (Post - Pre)*
		N	%	N	%	N	%	N	%	N	%	N	%						
1	Brazil	17	5.78	8	2.63	12	3.75	19	5.76	23	6.97	27	8.28	1,904	106	5.57	4.18	6.20	*2.02**
2	Canada	131	4.85	112	3.89	150	4.96	149	4.59	187	5.61	275	9.89	17,967	1,004	5.59	4.35	6.14	*1.79***
3	Chile	1	0.68	3	1.75	5	2.81	3	1.67	6	3.31	5	2.87	1,030	23	2.23	1.26	2.66	*1.40*
4	China	67	10.70	146	7.26	158	6.79	242	8.89	437	15.75	416	15.40	13,163	1,466	11.14	8.08	11.90	*3.83***
5	India	52	2.38	55	2.39	117	4.78	134	5.31	147	5.37	107	4.72	14,456	612	4.23	2.39	5.06	*2.68***
6	Indonesia	43	20.48	47	21.27	47	18.73	47	16.91	55	17.80	40	14.18	1,551	279	17.99	20.88	16.88	*-4.01**
7	Israel	26	16.67	24	13.19	36	17.06	36	15.38	40	15.15	38	9.52	1,446	200	13.83	14.79	13.54	*-1.26*
8	Malaysia	102	12.48	76	8.80	69	7.77	64	7.01	96	10.34	118	13.67	5,273	525	9.96	10.59	9.66	*-0.93*
9	Mexico	4	3.92	7	6.42	9	8.11	10	8.62	14	12.07	18	15.65	669	62	9.27	5.21	11.14	*5.92***
10	New Zealand	25	25.77	32	30.19	41	37.27	46	40.35	43	37.07	42	40.38	647	229	35.39	28.08	38.74	*10.66***
11	Pakistan	5	2.39	4	1.68	5	1.98	1	0.38	6	2.08	4	1.57	1,505	25	1.66	2.01	1.51	*-0.50*
12	Peru	4	4.65	2	2.22	4	4.21	0	0.00	2	2.06	1	1.06	559	13	2.33	3.41	1.83	*-1.58*
13	Russia	23	17.42	31	19.75	43	25.90	62	36.05	77	44.00	73	44.51	966	309	31.99	18.69	37.67	*18.98***
14	South Korea	70	8.92	52	3.69	44	2.73	48	2.89	42	2.49	29	1.80	8,772	285	3.25	5.56	2.48	*-3.08***
15	Thailand	144	32.88	115	25.05	129	27.16	123	25.26	132	26.40	116	24.73	2,828	759	26.84	28.87	25.89	*-2.98**
16	Turkey	4	3.67	2	1.49	6	4.11	8	5.26	2	1.26	9	6.34	842	31	3.68	2.47	4.17	*1.70*
17	United States	1880	26.41	1876	25.34	1979	26.02	2045	26.61	2090	28.05	2396	36.64	43,803	12,266	28.00	25.86	29.06	*3.20***
	Total/*Overall*	2,598	*16.02*	2,592	*13.62*	2,854	*14.11*	3,037	*14.34*	3,399	*15.84*	3,714	*19.25*	117,381	18,194	*15.50*	*14.72*	*15.83*	*1.11***

Table 3 Other Forecast Characteristics and Forecast Informativeness by Year

This table reports the annual mean number (percentage) of *FFREQ*, *FPREC*, (*FATTR*, *FLOSS*, and *FCAR*). *FFREQ* is forecast frequency; *FPREC* is forecast precision*; FATTR* (%) is the percentage of management forecasts with attribution (i.e. explanation); *FLOSS* (%) is the percentage of loss forecasts. *Diff* (Post – Pre) is the difference between post-IFRS and pre-IFRS periods. ***, **, and * indicate that the difference is statistically significant at the 1%, 5%, and 10% level, respectively. All variables are defined in the Appendix.

Panel A Mandatory IFRS adoption countries

		2004	2005	2006	2007	2008	2009	All years (04-09)	Pre-IFRS (04-05)	Post-IFRS (06-09)	Diff (Post - Pre)
1	Frequency (*FFREQ*)	1.83	1.80	1.85	1.89	2.00	1.97	1.90	1.81	1.93	*0.12****
2	Precision (*FFREC*)	1.99	2.07	2.03	2.03	2.00	1.92	2.00	2.03	1.99	*-0.04*
3	Attribution (*FATTR* (%))	9.18	7.11	14.29	17.12	23.51	24.05	17.08	8.08	20.07	*11.99****
4	Loss Warning (*FLOSS* (%))	5.61	5.61	4.48	5.33	8.58	15.94	8.34	5.60	9.18	*3.58****
5	Informativeness (*FCAR*(%))	4.04	4.53	4.80	5.09	7.06	6.88	5.53	4.30	6.11	*1.81****

Panel B Non-IFRS adoption countries

		2004	2005	2006	2007	2008	2009	All years (04-09)	Pre-IFRS (04-05)	Post-IFRS (06-09)	Diff (Post - Pre)
1	Frequency (*FFREQ*)	2.72	2.71	2.67	2.66	2.69	2.64	2.68	2.72	2.67	*-0.05***
2	Precision (*FFREC*)	2.45	2.51	2.47	2.51	2.47	2.34	2.45	2.48	2.44	*-0.04***
3	Attribution (*FATTR* (%))	16.94	15.47	19.90	25.12	26.57	30.69	23.17	16.20	25.95	*9.75****
4	Loss Warning (*FLOSS* (%))	7.70	6.58	6.41	6.75	7.13	10.72	7.68	7.14	7.89	*0.75*
5	Informativeness (*FCAR*(%))	5.17	5.45	5.87	5.68	7.03	6.71	6.06	5.31	6.38	*1.07****

Table 4 IFRS and Management Forecasts Likelihood (*FOCR*)

***, **, and * indicate that the estimated coefficients are statistically significant at the 1%, 5%, and 10% level, respectively. All firm-level continuous variables are winsorized at the 1st and the 99th percentiles. All variables are defined in the Appendix. Panel A includes both mandatory IFRS and non-IFRS adoption countries. Panel B is limited to IFRS adoption countries only.

Panel A Management forecast likelihood (*FOCR*) – difference-in-difference logistic models

	I Full Sample		II Exclude USA		III Full Sample	
N (Obs)	164,779		120,976		164,779	
N (*FOCR*=1)	28,422		16,156		28,422	
Pseudo R-sqr (%)	37.02		32.85		39.16	
	Coef	Pr > ChiSq	Coef	Pr > ChiSq	Coef	Pr > ChiSq
IFRS	-0.353***	0.00	0.394***	0.00	-0.492***	0.00
POST	-0.380***	0.00	-0.050	0.15	-0.207***	0.00
*IFRS * POST*	0.606***	0.00	0.326***	0.00	0.425***	0.00
Intercept	-4.305***	0.00	-4.786***	0.00	-5.066***	0.00
ACCRUAL	0.175***	0.00	-0.014	0.74	0.101***	0.00
ANALYST	0.032***	0.00	0.026***	0.00	0.034***	0.00
BIG4	0.455***	0.00	0.259***	0.00	0.336***	0.00
BM	-0.285***	0.00	-0.222***	0.00	-0.268***	0.00
EARNVOL	0.049***	0.00	-0.093***	0.00	0.027***	0.01
INSIDER	-0.004	0.88	0.209***	0.00	-0.024	0.34
INSTITUTION	0.007***	0.00	0.006***	0.00	0.006***	0.00
LNASSET	0.333***	0.00	0.322***	0.00	0.359***	0.00
LOSS	-0.089***	0.00	-0.043*	0.10	0.011	0.59
NEWS	-0.021	0.18	0.013	0.53	0.009	0.59
OPTGRANT	0.942***	0.00	0.458***	0.00	0.648***	0.00
SEGMENT	0.052***	0.00	0.050***	0.00	0.052***	0.00
STKEXCH	0.061***	0.00	0.077***	0.00	0.026**	0.02
EXTFIN	0.005***	0.00	0.016***	0.00	0.007***	0.00
HERF	0.392***	0.00	-0.412***	0.00	-0.093**	0.04
HITECH	0.544***	0.00	0.396***	0.00	0.552***	0.00
RD	2.592***	0.00	0.393	0.57	3.514***	0.00
GAAPDIFF					-0.070***	0.00
ENFORCE					0.047***	0.01
CAPMKT					0.003***	0.00
COMMON					0.710***	0.00
Fixed Effect	Industry		Industry		Industry	
Fixed Effect	Country		Country		Country	

Table 4 Cont'd
Panel B Management forecast likelihood (*FOCR*) post-IFRS

	Mandatory IFRS adoption countries only										
	I		**II**		**III**		**IV**		**V**		**VI**	
N (Obs)	47,398		47,398		47,398		47,398		47,398		47,398	
N (*FOCR*=1)	10,228		10,228		10,228		10,228		10,228		10,228	
Pseudo R-sqr (%)	34.92		35.08		35.14		35.08		35.00		35.78	
	Coef	**Pr> ChiSq**	**Coef**	**Pr> ChiSq**	**Coef**	**Pr> ChiSq**	**Coef**	**Pr> ChiSq**	**Coef**	**Pr> ChiSq**	**Coef**	**Pr> ChiSq**
POST	**0.341***	**0.00**	**0.230***	**0.00**	**-0.231***	**0.00**	**0.130***	**0.00**	**0.603***	**0.00**	**-0.600***	**0.00**
*POST * GAAPDIFF*			**0.016***	**0.01**							**0.046***	**0.00**
*POST * ENFORCE*					**0.410***	**0.00**					**0.413***	**0.00**
*POST * CAPMKT*							**0.002***	**0.00**			**0.002***	**0.00**
*POST * STKEXCH*									**-0.175***	**0.00**	**-0.198***	**0.00**
Intercept	-4.085***	0.00	-3.896***	0.00	-1.874***	0.00	-4.210***	0.00	-4.296***	0.00	-3.454***	0.00
ACCRUAL	-0.049	0.40	-0.045	0.44	-0.044	0.45	-0.047	0.41	-0.047	0.42	-0.040	0.49
ANALYST	0.028***	0.00	0.030***	0.00	0.029***	0.00	0.028***	0.00	0.027***	0.00	0.030***	0.00
BIG4	0.187***	0.00	0.204***	0.00	0.195***	0.00	0.185***	0.00	0.190***	0.00	0.211***	0.00
BM	-0.132***	0.00	-0.126***	0.00	-0.133***	0.00	-0.135***	0.00	-0.132***	0.00	-0.131***	0.00
EARNVOL	-0.099***	0.00	-0.072***	0.00	-0.083***	0.00	-0.112***	0.00	-0.099***	0.00	-0.094***	0.00
INSIDER	0.148***	0.00	0.153***	0.00	0.152***	0.00	0.141***	0.00	0.144***	0.00	0.134***	0.00
INSTITUTION	0.004***	0.00	0.004***	0.00	0.004***	0.00	0.004***	0.00	0.004***	0.00	0.004***	0.00
LNASSET	0.334***	0.00	0.338***	0.00	0.337***	0.00	0.328***	0.00	0.333***	0.00	0.324***	0.00
LOSS	-0.153***	0.00	-0.164***	0.00	-0.164***	0.00	-0.147***	0.00	-0.157***	0.00	-0.165***	0.00
NEWS	-0.034	0.20	-0.039	0.15	-0.044*	0.10	-0.031	0.25	-0.033	0.22	-0.041	0.12
OPTGRANT	0.226***	0.00	0.250***	0.00	0.220***	0.00	0.194***	0.00	0.229***	0.00	0.195***	0.00
SEGMENT	0.023***	0.00	0.022***	0.00	0.023***	0.00	0.024***	0.00	0.023***	0.00	0.023***	0.00
STKEXCH	0.034**	0.03	0.026	0.11	0.029*	0.07	0.038**	0.02	0.182***	0.00	0.196***	0.00
EXTFIN	0.027***	0.00	0.026***	0.00	0.026***	0.00	0.027***	0.00	0.027***	0.00	0.024***	0.00
HERF	-0.092	0.18	-0.251***	0.00	-0.183***	0.01	-0.031	0.66	-0.096	0.16	-0.216***	0.00
HITECH	0.435***	0.00	0.427***	0.00	0.434***	0.00	0.444***	0.00	0.432***	0.00	0.450***	0.00
RD	2.235***	0.01	2.231***	0.01	2.224***	0.01	2.279***	0.01	2.263***	0.01	2.359***	0.01
GAAPDIFF			-0.060***	0.00							-0.176***	0.00
ENFORCE					-0.016	0.89					-0.515*	0.09
CAPMKT							0.001*	0.07			0.007***	0.00
COMMON											-0.458	0.36
Fixed Effect	Industry		Industry		Industry		Industry		Industry		Industry	
Fixed Effect	Country		Country		Country		Country		Country		Country	

Table 5 IFRS and Forecast Frequency (*FFREQ*)

***, **, and * indicate that the estimated coefficients are statistically significant at the 1%, 5%, and 10% level, respectively. All firm-level continuous variables are winsorized at the 1st and the 99th percentiles. All variables are defined in the Appendix. Panel A includes both mandatory IFRS and non-IFRS adoption countries. Panel B is limited to IFRS adoption countries only.

Panel A Management forecast frequency (*FFREQ*) – difference-in-difference OLS models

	I		II		III	
	Full Sample		**Exclude USA**		**Full Sample**	
N (*FOCR*=1)	28,422		16,156		28,422	
Adj. R-sqr (%)	25.79		18.69		28.89	
	Coef	**Pr > |t|**	**Coef**	**Pr > |t|**	**Coef**	**Pr > |t|**
IFRS	**-1.201*****	**0.00**	**-0.435*****	**0.00**	**-1.555*****	**0.00**
POST	**-0.259*****	**0.00**	**-0.011**	**0.76**	**-0.115*****	**0.00**
IFRS * POST	**0.405*****	**0.00**	**0.177*****	**0.00**	**0.267*****	**0.00**
Intercept	1.622***	0.00	0.941***	0.00	1.374***	0.00
ACCRUAL	0.268***	0.00	0.102***	0.01	0.163***	0.00
ANALYST	0.006***	0.00	0.007***	0.00	0.005***	0.00
BIG4	0.381***	0.00	0.152***	0.00	0.260***	0.00
BM	-0.153***	0.00	-0.082***	0.00	-0.139***	0.00
EARNVOL	0.015	0.16	-0.034***	0.01	-0.046***	0.00
INSIDER	-0.139***	0.00	0.029	0.24	-0.096***	0.00
INSTITUTION	-0.001*	0.10	-0.001***	0.00	-0.001*	0.10
LNASSET	0.108***	0.00	0.083***	0.00	0.115***	0.00
LOSS	-0.050***	0.01	-0.051**	0.03	-0.112***	0.00
NEWS	-0.075***	0.00	-0.022	0.20	-0.051***	0.00
OPTGRANT	0.530***	0.00	0.191***	0.00	0.287***	0.00
SEGMENT	-0.005	0.24	-0.005	0.18	-0.006	0.13
STKEXCH	0.034***	0.00	0.078***	0.00	0.039***	0.00
EXTFIN	0.007***	0.00	0.007***	0.00	0.010***	0.00
HERF	0.486***	0.00	-0.148***	0.00	0.261***	0.00
HITECH	0.127**	0.04	0.017	0.85	0.120**	0.05
RD	2.700***	0.00	1.396***	0.01	2.386***	0.00
GAAPDIFF					-0.032***	0.00
ENFORCE					0.464***	0.00
CAPMKT					0.001***	0.00
COMMON					-0.172***	0.00
Fixed Effect	Industry		Industry		Industry	
Fixed Effect	Country		Country		Country	

Table 5 Cont'd

Panel B Management forecast frequency (*FFREQ*) post-IFRS

	I		II		III		IV		V		VI	
	Mandatory IFRS adoption countries only											
N (*FOCR*=1)	10,228		10,228		10,228		10,228		10,228		10,228	
Adj. R-sqr (%)	24.17		24.25		24.24		24.21		24.16		24.35	
	Coef	Pr > |t|	Coef	Pr > |t|	Coef	Pr > |t|	Coef	Pr > |t|	Coef	Pr > |t|	Coef	Pr > |t|
POST	0.182***	0.00	0.041	0.20	-0.045	0.34	0.172***	0.00	0.145***	0.00	-0.319***	0.00
*POST * GAAPDIFF*			0.018***	0.00							0.021***	0.00
*POST * ENFORCE*					0.158***	0.00					0.167***	0.00
*POST * CAPMKT*							0.001*	0.08			0.001***	0.01
*POST * STKEXCH*									0.019	0.27	0.023	0.14
Intercept	0.634***	0.00	0.733***	0.00	1.029***	0.00	0.544***	0.00	0.641***	0.00	1.296***	0.00
ACCRUAL	0.104**	0.03	0.107**	0.02	0.102**	0.03	0.102**	0.03	0.118***	0.01	0.101**	0.03
ANALYST	0.012***	0.00	0.012***	0.00	0.012***	0.00	0.011***	0.00	0.011***	0.00	0.012***	0.00
BIG4	0.071***	0.00	0.064***	0.00	0.068***	0.00	0.069***	0.00	0.068***	0.00	0.061***	0.00
BM	-0.043***	0.00	-0.040***	0.00	-0.044***	0.00	-0.045***	0.00	-0.042***	0.00	-0.048***	0.00
EARNVOL	-0.088***	0.00	-0.091***	0.00	-0.085***	0.00	-0.094***	0.00	-0.092***	0.00	-0.094***	0.00
INSIDER	0.013	0.60	0.014	0.56	0.013	0.60	0.011	0.66	0.003	0.89	0.013	0.60
INSTITUTION	-0.001***	0.00	-0.001***	0.00	-0.001***	0.00	-0.001***	0.00	-0.001**	0.02	-0.001***	0.00
LNASSET	0.061***	0.00	0.060***	0.00	0.061***	0.00	0.059***	0.00	0.068***	0.00	0.059**	0.00
LOSS	-0.014	0.54	-0.018	0.41	-0.011	0.60	-0.017	0.45	0.033	0.16	-0.015	0.48
NEWS	-0.012	0.49	-0.014	0.44	-0.013	0.47	-0.013	0.48	-0.010	0.59	-0.016	0.37
OPTGRANT	0.031	0.27	0.031	0.28	0.028	0.32	0.028	0.32	0.040	0.18	0.024	0.40
SEGMENT	-0.005	0.21	-0.005	0.28	-0.005	0.21	-0.005	0.25	-0.006	0.14	-0.004	0.29
STKEXCH	0.068***	0.00	0.066***	0.00	0.070***	0.00	0.070***	0.00	0.054***	0.00	0.046***	0.00
EXTFIN	0.008***	0.00	0.008***	0.00	0.008***	0.00	0.008***	0.00	0.009***	0.00	0.008***	0.00
HERF	-0.039	0.37	-0.023	0.62	-0.054	0.22	-0.025	0.58	-0.022	0.62	-0.022	0.62
HITECH	-0.004	0.96	-0.001	1.00	-0.002	0.98	-0.004	0.96	-0.022	0.78	-0.003	0.97
RD	1.042*	0.08	1.232**	0.05	1.019*	0.09	1.079*	0.07	1.151*	0.07	1.014*	0.09
GAAPDIFF			-0.009*	0.06							0.001	0.98
ENFORCE					-0.255**	0.04					-0.441***	0.01
CAPMKT							0.001*	0.08			0.001	0.52
COMMON											0.120	0.77
Fixed Effect	Industry		Industry		Industry		Industry		Industry		Industry	
Fixed Effect	Country		Country		Country		Country		Country		Country	

Table 6 Management Forecast Likelihood (*FOCR*) and Frequency (*FFREQ*) with Year Indicators

***, **, and * indicate that the estimated coefficients are statistically significant at the 1%, 5%, and 10% level, respectively. All firm-level continuous variables are winsorized at the 1st and the 99th percentiles. This analysis is limited to IFRS adoption countries only. *D2005, D2006, D2007, D2008,* and *D2009* are indicator variables equals 1 if the observation is in year 2005, 06, 07, 08 and 09, respectively and 0 otherwise. All variables are defined in the Appendix.

	Forecast Likelihood (*FOCR*) Model: Logistics				Forecast Frequency (*FFREQ*) Model: OLS			
	I		II		III		IV	
N (Obs)	47,398		47,398					
N (*FOCR*=1)	10,228		10,228		6,268		6,268	
Pseudo/Adj. R-sqr (%)	35.19		35.61		24.65		24.71	
	Coef	**Pr > ChiSq**	**Coef**	**Pr > ChiSq**	**Coef**	**Pr > |t|**	**Coef**	**Pr > |t|**
D2005	**0.035**	**0.49**	**0.035**	**0.50**	**0.065****	**0.05**	**0.059***	**0.09**
D2006	**0.278****	**0.00**	**0.287****	**0.00**	**0.129****	**0.00**	**0.130****	**0.00**
D2007	**0.207****	**0.00**	**0.216****	**0.00**	**0.169****	**0.00**	**0.166****	**0.00**
D2008	**0.421****	**0.00**	**0.435****	**0.00**	**0.276****	**0.00**	**0.276****	**0.00**
D2009	**0.642****	**0.00**	**0.662****	**0.00**	**0.393****	**0.00**	**0.387****	**0.00**
Intercept	-4.042***	0.00	-4.325***	0.00	0.629***	0.00	0.801**	0.05
ACCRUAL	-0.055	0.35	-0.050	0.38	0.103**	0.03	0.105**	0.03
ANALYST	0.030***	0.00	0.032***	0.00	0.013***	0.00	0.013***	0.00
BIG4	0.202***	0.00	0.228***	0.00	0.075***	0.00	0.071***	0.00
BM	-0.173***	0.00	-0.172***	0.00	-0.070***	0.00	-0.072***	0.00
EARNVOL	-0.098***	0.00	-0.091***	0.00	-0.089***	0.00	-0.095***	0.00
INSIDER	0.162***	0.00	0.158***	0.00	0.019	0.45	0.017	0.49
INSTITUTION	0.003***	0.00	0.003***	0.00	-0.001***	0.00	-0.001***	0.00
LNASSET	0.332***	0.00	0.325***	0.00	0.059***	0.00	0.058***	0.00
LOSS	-0.185***	0.00	-0.192***	0.00	0.002	0.92	-0.006	0.79
NEWS	-0.034	0.23	-0.040	0.16	0.001	0.98	0.001	0.96
OPTGRANT	0.224***	0.00	0.221***	0.00	0.026	0.37	0.018	0.52
SEGMENT	0.025***	0.00	0.025***	0.00	-0.004	0.29	-0.005	0.25
STKEXCH	0.013	0.41	0.012	0.46	0.056***	0.00	0.056***	0.00
EXTFIN	0.027***	0.00	0.024***	0.00	0.007***	0.00	0.007***	0.00
HERF	-0.104	0.13	-0.246***	0.00	-0.041	0.35	-0.027	0.55
HITECH	0.428***	0.00	0.450***	0.00	-0.010	0.90	-0.007	0.93
RD	2.254***	0.01	2.351***	0.01	0.884	0.13	0.991*	0.09
GAAPDIFF			-0.156***	0.01			0.015	0.73
ENFORCE			-0.032	0.91			-0.234	0.16
CAPMKT			0.009***	0.00			0.001	0.33
COMMON			-0.520	0.30			0.111	0.77
Fixed Effect	Industry		Industry		Industry		Industry	
Fixed Effect	Country		Country		Country		Country	

Table 7 IFRS and Other Management Forecast Characteristics

***, **, and * indicate that the estimated coefficients are statistically significant at the 1%, 5%, and 10% level, respectively. All firm-level continuous variables are winsorized at the 1st and the 99th percentiles. All variables are defined in the Appendix.

	Forecast Attribution (*FATTR*) Model: Logistics				Forecast Precision (*FPREC*) Model: OLS				Loss Forecast (*FLOSS*) Model: Logistics			
	I		II		III		IV		V		VI	
N (*FOCR*=1)	28,422		28,422		28,422		28,422		28,422		28,422	
N (*FATTR*=1)	5,962		5,962									
N (*FLOSS*=1)									2,067		2,067	
Pseudo/Adj. R-sqr (%)	13.19		13.47		15.91		17.64		19.31		20.83	
	Coef	P>ChiSq	Coef	P>ChiSq	Coef	Pr > |t|	Coef	Pr > |t|	Coef	P>ChiSq	Coef	P>ChiSq
IFRS	-0.618***	0.00	-0.593***	0.00	-0.346***	0.00	-0.651***	0.00	0.169	0.16	0.058	0.66
POST	0.647***	0.00	0.642***	0.00	-0.148***	0.00	-0.051***	0.01	-0.255***	0.00	-0.218***	0.01
IFRS * POST	0.259***	0.01	0.276***	0.00	0.103***	0.00	0.025	0.39	0.083	0.52	-0.089	0.50
Intercept	-3.168***	0.00	-2.942***	0.00	1.834***	0.00	1.256***	0.00	-4.343***	0.00	-4.359***	0.00
ACCRUAL	-0.176**	0.02	-0.143*	0.07	0.100***	0.00	0.023	0.43	0.078	0.43	0.075	0.45
ANALYST	-0.004***	0.01	-0.004**	0.02	-0.004***	0.00	-0.005***	0.00	0.001	0.60	0.002	0.49
BIG4	0.077**	0.05	0.123***	0.00	0.216***	0.00	0.144***	0.00	0.151***	0.01	0.176***	0.00
BM	0.091***	0.00	0.085***	0.00	-0.074***	0.00	-0.062***	0.00	0.372***	0.00	0.325***	0.00
EARNVOL	-0.080***	0.00	-0.057**	0.02	0.041***	0.00	-0.008	0.40	-0.044	0.15	-0.002	0.95
INSIDER	-0.102*	0.08	-0.110*	0.06	-0.074***	0.00	-0.062***	0.00	0.010	0.90	-0.052	0.55
INSTITUTION	0.003***	0.00	0.002***	0.00	0.001	0.45	0.001	0.55	0.008***	0.00	0.007***	0.00
LNASSET	0.013	0.24	0.013	0.28	0.005	0.22	0.011***	0.01	-0.023	0.19	-0.020	0.25
LOSS	0.197***	0.00	0.214***	0.00	-0.032**	0.04	-0.054***	0.00	2.086***	0.00	2.105***	0.00
NEWS	-0.012	0.70	-0.028	0.38	-0.065***	0.00	-0.047***	0.00	0.199***	0.00	0.182***	0.00
OPTGRANT	-0.115***	0.00	-0.055	0.19	0.245***	0.00	0.083***	0.00	0.148**	0.02	0.127**	0.05
SEGMENT	0.010	0.21	0.009	0.27	-0.009***	0.00	-0.008***	0.01	-0.036***	0.01	-0.047***	0.00
STKEXCH	0.027*	0.09	0.024	0.13	-0.025***	0.00	-0.025***	0.00	0.063**	0.02	0.075***	0.00
EXTFIN	0.004	0.22	0.003	0.43	-0.001	0.83	0.001	0.27	-0.020***	0.00	-0.022***	0.00
HERF	-0.122	0.17	-0.152*	0.10	0.354***	0.00	0.121***	0.00	0.721***	0.00	0.268*	0.08
HITECH	0.010	0.93	0.017	0.89	0.021	0.66	0.019	0.69	-0.221	0.18	-0.171	0.30
RD	1.428	0.11	1.507*	0.09	-1.180***	0.00	-1.067***	0.01	0.997	0.50	0.591	0.70
FFREQ	0.417***	0.00	0.428***	0.00	0.230***	0.00	0.207***	0.00	0.182***	0.00	0.215***	0.00
GAAPDIFF			-0.060***	0.00			-0.013***	0.00			-0.027*	0.07
ENFORCE			-0.350***	0.00			0.218***	0.00			-0.139***	0.01
CAPMKT			0.004***	0.00			0.004***	0.00			0.004***	0.00
COMMON			-0.059	0.53			0.023	0.44			-0.306**	0.03
Fixed Effect	Industry		Industry		Industry		Industry		Industry		Industry	
Fixed Effect	Country		Country		Country		Country		Country		Country	

Table 8 IFRS and Management Forecasts Informativeness (*FCAR*)

***, **, and * indicate that the estimated coefficients are statistically significant at the 1%, 5%, and 10% level, respectively. All firm-level continuous variables are winsorized at the 1st and the 99th percentiles. Bundled forecasts are forecasts issued together with earnings announcement. All variables are defined in the Appendix. Panel A includes both mandatory IFRS and non-IFRS adoption countries. Panel B is limited to IFRS adoption countries only.

Panel A Forecast informativeness (*FCAR*) – difference-in-difference OLS models

	I Full Sample		II Exclude Bundled Forecasts	
N (Forecast)	68,519		11,963	
Adj. R-sqr (%)	9.03		11.55	
	Coef	Pr > |t|	Coef	Pr > |t|
IFRS	**-0.862*****	**0.00**	**-0.665****	**0.03**
POST	**1.190*****	**0.00**	**1.279*****	**0.00**
IFRS * POST	**-0.364*****	**0.00**	**-0.294**	**0.27**
Intercept	8.030***	0.00	6.762***	0.00
FFREQ	0.159***	0.00	0.054	0.45
FPREC	0.193***	0.00	0.261***	0.00
FATTR	0.170***	0.01	0.247	0.17
FLOSS	0.006	0.97	-0.196	0.48
ANALYST	0.023***	0.00	-0.009	0.41
BIG4	-0.188**	0.03	-0.379**	0.02
BM	0.319***	0.00	0.111	0.44
LNASSET	-0.536***	0.00	-0.477***	0.00
LOSS	1.380***	0.00	1.804***	0.00
NEWS	-0.190***	0.00	0.108	0.44
GAAPDIFF	-0.171***	0.00	-0.114***	0.00
ENFORCE	0.729***	0.00	1.137***	0.00
CAPMKT	0.007***	0.00	0.015***	0.00
COMMON	-1.821***	0.00	-1.816***	0.00
Fixed Effect	Industry		Industry	
Fixed Effect	Country		Country	

Table 8 Cont'd

Panel B Forecast informativeness (*FCAR*) and legal enforcement (*ENFORCE*)

	I		II		III		IV	
	Full Sample				**Exclude Bundled Forecasts**			
N (Forecast)	19,366		19,366		5,029		5,029	
Adj. R-sqr (%)	8.97		9.00		11.25		11.30	
	Coef	**Pr > |t|**	**Coef**	**Pr > |t|**	**Coef**	**Pr > |t|**	**Coef**	**Pr > |t|**
POST	**0.531***	**0.07**	**0.616****	**0.03**	**0.155**	**0.52**	**0.432*****	**0.01**
POST * ENFORCE	**0.126***	**0.10**			**0.297***	**0.09**		
POST * HI_ENFORCE			**0.338****	**0.02**			**0.784*****	**0.01**
Intercept	7.619**	0.02	7.076***	0.00	16.069***	0.00	11.764***	0.00
FFREQ	0.139***	0.01	0.136***	0.01	0.040	0.54	0.038	0.55
FPREC	0.138***	0.00	0.136***	0.00	0.156***	0.01	0.159***	0.01
FATTR	0.083	0.43	0.089	0.41	0.299*	0.09	0.269	0.13
FLOSS	-0.128	0.13	-0.147	0.12	-0.362	0.16	-0.346	0.18
ANALYST	0.034***	0.01	0.034***	0.01	-0.007	0.51	-0.009	0.38
BIG4	-0.102	0.25	-0.093	0.32	-0.348**	0.03	-0.342**	0.03
BM	0.323***	0.00	0.354***	0.00	0.193**	0.05	0.203***	0.04
LNASSET	-0.296***	0.00	-0.293***	0.00	-0.276***	0.00	-0.268***	0.00
LOSS	0.802***	0.00	0.765***	0.00	1.042***	0.00	1.032***	0.00
NEWS	-0.255	0.34	-0.247	0.35	-0.062	0.62	-0.063	0.61
GAAPDIFF	-0.262**	0.03	-0.247***	0.01	-0.628***	0.00	-0.499***	0.00
ENFORCE	-0.295	0.78			-2.193*	0.07		
HI_ENFORCE			-0.285	0.38			-1.129***	0.00
CAPMKT	0.001	0.74	0.001	0.65	0.003	0.49	0.001	0.88
COMMON	-1.703	0.11	-1.550	0.11	-6.599***	0.00	-5.637***	0.00
Fixed Effect	Industry		Industry		Industry		Industry	
Fixed Effect	Country		Country		Country		Country	